

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 6812

EXDIS

FROM AMBASSADOR

E.O. 11652: GDS
TAGS: MOPS, CG, EAID
SUBJECT: RECOMMENDATIONS FOR FY-78 ECONOMIC ASSISTANCE FOR ZAIRE

REF: STATE 160124

1. SUMMARY: MISSION RECOMMENDS SIGNING OF FY-78 PL-480 PROGRAM ONCE GOZ HAS PRODUCED SATISFACTORY EVIDENCE WE HAVE REQUESTED RE FOREIGN EXCHANGE BUDGETING. SIGNING OF FY-78 SSA LOAN SHOULD BE SIMILARLY TIED, BUT COULD BE DELAYED SOMEWHAT LONGER PENDING ACTUAL PLACEMENT OF EXPATRIATE EXPERTS IN KEY GOZ FINANCIAL INSTITUTIONS. WE BELIEVE GOZ SHOULD BE GIVEN REASONABLE PERIOD OF TIME (I.E., NEXT THREE MONTHS PRIOR TO OCTOBER DONORS' MEETING) TO START IMPLEMENTATION OF POLITICAL AND OTHER SIDER-RANGING REFORMS. AT THE END OF THAT PERIOD WE SHOULD ASSESS PROGRESS MADE AND DECIDE ACCORDINGLY ON IMPLEMENTATION OF OUR FY-79 AID PROGRAMS. THOSE PROGRAMS WOULD BE TRANCHED AS NECESSARY TO INDUCE GOZ TO PURSUE AND EXPAND REFORMS OVER THE LONGER TERM. END SUMMARY.

2. REFTTEL ASKS FOR OUR JUDGMENT AND RECOMMENDATIONS REGARDING HOW BEST TO USE (OR TO REFUSE) FUTURE US ASSISTANCE AS A MEANS OF INDUCING MOBUTU TO IMPLEMENT REFORMS. BEFORE ADDRESSING THIS AND RELATED ISSUES, WE BELIEVE IT IS IMPORTANT FOR US TO HAVE
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AS CLEAR A VIEW AS POSSIBLE OF THE EXTENT TO WHICH OUR ASSISTANCE OFFERS US REAL LEVERAGE WITH THE GOZ.

3. CURRENT AND PROJECTED US ECONOMIC ASSISTANCE (DOLLARS 30-40 MILLION INCLUDING PL-480)S IS IMPORTANT, BUT NOT ESSENTIAL, TO THE SURVIVAL OF ZAIRE. THE FACT THAT ZAIRE COULD
GET ALONG WITHOUT OUR AID MEANS THAT OUR LEVERAGE HAS ITS LIMITS.

BY THE SAME TOKEN THIS FACT ALSO GIVES THE GOZ SOME LEEWAY IN REACTING

NEGATIVELY TO OUR TOUGH POSTURE. ON THE OTHER HAND, IF WE SHOULD REACH THE POINT WHERE REDUCING OUR AID LEVELS IS NECESSARY, THIS COULD BE DONE AT THE PRICE OF HURTING BUT NOT FATALLY AFFECTING ZAIRE'S ECONOMY. PROBABLY THE MOST SIGNIFICANT EFFECT OF ANY SUCH REDUCTIONS WOULD BE THE PSYCHOLOGICAL IMPACT ON OTHER WESTERN DONORS AS WELL AS ON THE GOZ ITSELF. THE NATURE AND EXTENT OF SUCH IMPACT IS AT THIS POINT DIFFICULT TO PREDICT.

4. WE HAVE MADE QUITE CLEAR TO MOBUTU THE KINDS OF CHANGES WE CONSIDER NECESSARY FOR OUR ASSISTANCE TO BE EFFECTIVE AND THEREFORE TO BE CONTINUED. IN THE NEAR TERM, WE HAVE SAID THAT WE MUST HAVE A SATISFACTORY ACCOUNTING OF THE GOZ'S FOREIGN EXCHANGE EXPENDITURES AND RECEIPTS IN ORDER TO GO AHEAD WITH OUR FY-78 PL-480 PROGRAM AND THE \$5 MILLION SSA LOAN. MOBUTU, FOR HIS PART, HAS REITERATED HIS INTENTION TO IMPLEMENT DURING THE NEXT THREE MONTHS CERTAIN MANAGEMENT REFORMS (E.G., CENTRAL BANK, CUSTOMS, FINANCE DEPT) AND TO GET A START ON OTHER REFORMS WE HAVE RECOMMENDED.

5. REFTTEL, WRITTEN FOLLOWING THE PARIS FIVE'S DEMARCHES AND MOBUTU'S JUNE 21 SPEECH, SUGGESTS THAT WE WILL NOT BE ABLE TO PROCEED WITH THE PL-480 AND SSA LOAN EVEN IF THE GOZ PRODUCES THE FOREIGN EXCHANGE BUDGET WE ASKED FOR, BECAUSE MOBUTU HAS GIVEN NO INDICATION
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HE WILL UNDERTAKE WIDE-RANGING REFORMS. WE DO NOT AGREE WITH THIS CONCEPT FOR SEVERAL REASONS: (1) IT GOES BEYOND WHAT WE UNDERSTOOD WAS PUT TO THE GOZ AT BRUSSELS INsofar AS IT LINKS IMPLEMENTATION OF OUR FY-78 PL-480 PROGRAM AND SSA LOAN TO REFORMS OTHER THAN THOSE RELATING TO FOREIGN EXCHANGE AND OTHER IMPENDING STEPS TO IMPROVE FINANCIAL MANAGEMENT; (2) IT DOES NOT TAKE INTO ACCOUNT THE POLITICAL REALITY THAT MOBUTU COULD HARDLY BE EXPECTED TO MAKE THE "SIGNIFICANT GESTURES" SIGNALING OTHER, LONG-RANGE REFORMS SO SOON AFTER OUR WIDELY-PUBLICIZED DEMARCHES; (3) SINCE THE NEGOTIATIONS WITH THE GOZ ON PL-480 WERE COMPLETED WELL BEFORE THE BRUSSELS CONFERENCE,

AT WHICH WE ADOPTED OUR CURENT POSITION, WE COULD OPEN OURSELVES TO CHARGES OF RENEGING ON AN AGREEMENT ALREADY REACHED IN GOOD FAITH; AND (4) SINCE THE BULK OF PL-480 COMMODITIES IS BASIC FOODSTUFFS (WHEAT, RICE), A PROLONGED DELAY COULD EXPOSE US TO CHARGES OF PENALIZING THE NEEDY MASSES NOW FACING A POSSIBLY SERIOUS FOOD CRISIS. OUR POSTURE ON THIS ISSUE COULD BE PARTICULARLY VULNERABLE IF, AS SEEMS LIKELY, OTHER DONORS MOVE AHEAD IN HELPING TO PROVIDE FOOD AND OTHER URGENTLY-NEEDED IMPORTS WITHOUT FIRST INSISTING ON REFORMS.

6. ASSUMING WE DO SIGN THE PL-480 AGREEMENT, WE COULD TO SOME DEGREE PACE ITS IMPLEMENTATION IN ACCORDANCE WITH DEMONSTRATED

GOZ PROGRESS ON REFORMS. RICE SHIPMENTS SHOULD BE TIED TO A VIABLE DISTRIBUTION PLAN, PER EARLIER CABLES. HOWEVER, THE RICE SHOULD ALL BE DELIVERED BY THE END OF DECEMBER TO AVOID DISINCENTIVES TO LOCAL PRODUCTION. IN VIEW OF THE CRITICAL NEED FOR COTTON AND THE IMMINENT RISK OF MILLS CLOSING DOWN WITH CONSEQUENT URBAN UNEMPLOYMENT, WE BELIEVE THE SHIPMENTS OF PL-480 COTTON SHOULD PROCEED WITHOUT DELAY. SHIPMENTS OF TOBACCO AND WHEAT, HOWEVER, COULD PROCEED IN A MORE MEASURED WAY.

7. WE BELIEVE THE FY-78 SSA LOAN OFFERS A MORE APPROPRIATE AND EFFECTIVE MEANS THAN PL-480 FOR EXERTING LEVERAGE, IN THAT THE SSA FACILITATES IMPORTS WHICH, WHILE BADLY NEEDED FOR THE AGRICULTURAL

SECTOR, DO NOT IMMEDIATELY AFFECT THE HEALTH AND WELFARE OF THE
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MASSSES. IF NECESSARY WE COULD DELAY SIGNING THE LOAN UNTIL VERY LATE IN THE FISCAL YEAR, THUS PROVIDING US WITH ADDITIONAL TIME TO INDUCE AND TO MEASURE GOZ IMPLEMENTATION OF REFORMS DURING THE CRITICAL THREE-MONTH PERIOD BETWEEN NOW AND THE NEXT DONORS' CONFERENCE SCHEDULED IN OCTOBER.

8. THE FOLLOWING ARE REPLIES TO THE SPECIFIC QUESTIONS POSED
PARA 7 REFTEL:

A) WE FAVOR SWITCHING A PORTION OF THE DOLLARS 8 MILLION TOBACCO COMPONENT OF THE FY-78 PL-480 PROGRAM INTO FOODSTUFFS.

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C O N F I D E N T I A L SECTION 2 OF 2 KINSHASA 6812

EXDIS

FROM AMBASSADOR

SPECIFICALLY, WE WOULD LIKE TO INCREASE THE QUANTITY OF RICE FROM THE PRESENT AMOUNT OF 13,000 MT TO APPROX 30,000 MT. AT PRESENT PRICES THIS WOULD REPRESENT ABOUT ONE-HALF OF THE AMOUNT NOW PROGRAMMED FOR TOBACCO. LOCAL RICE STOCKS ARE ESSENTIALLY EXHAUSTED AND THE NEW HARVEST WILL NOT BEGIN UNTIL DEC. WE BELIEVE THAT, PROVIDED IT ARRIVES PRIOR TO THE NEW HARVEST, THE 30,000 MT COULD EASILY BE ABSORBED WITHOUT BECOMING A DISINCENTIVE TO LOCAL PRODUCTION.

B) REGARDING THE SSA LOAN, WE PREFER TO RETAIN THE MIX SUGGESTED KINSHASA 6164. WE WOULD PROCEED NORMALLY TO DEVELOP AND OBLIGATE THE TECHNICAL ASSISTANCE PORTION AS DIRECTLY IMPACTING ON ZAIRE'S POOR AND MEETING EXPECTATIONS ALREADY GENERATED AT ALL LEVELS

WE WOULD NOT ATTEMPT TO USE THIS PORTION TO INDUCE REFORMS SINCE THIS TYPE OF ASSISTANCE PROVIDES LITTLE LEVERAGE. HOWEVER, SLOW APPROVAL AND IMPLEMENTATION PROCEDURES WOULD PERMIT CUTOFFS AT ANY TIME SHOULD THEY PROVE NECESSARY. WE DO NOT AT THIS TIME FAVOR SWITCHING TO A REGULAR CIP LOAN; THE AG MARKETING LOAN SHOULD PROVIDE A FOCUS ON THE KEY DEVELOPMENT SECTOR WHILE AT THE SAME TIME ASSISTING IN THE BALANCE OF PAYMENTS PROBLEM.

C) AS INDICATED IN PARA 7 ABOVE, WE SEE NO PROBLEM IN TYING THE SSA LOAN TO APPROPRIATE EVIDENCE OF SHORT-TERM FINANCIAL MANAGEMENT

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REFORMS INCLUDING THE PLACEMENT OF EXPATRIATE EXPERTS IN KEY POSITIONS.

HOWEVER, WE DO NOT BELIEVE THAT TRANCHING OF THE SSA LOAN FOR DOLLARS 5 MILLION MAKES MUCH SENSE, SINCE THIS AMOUNT IS CONSIDERED ONLY THE FIRST TRANCHE IN AN ON-GOING LOAN PROGRAM. THE LOAN AMOUNT PROGRAMMED FOR FY-79 SHOULD BE CONSIDERED AS THE SECOND TRANCHE, ITS IMPLEMENTATION BEING SUBJECT TO SATISFACTORY PERFORMANCE ON REFORMS. THE TRANCHING OF COMMODITIES UNDER THE PL-480 PROGRAM IS DISCUSSED IN PARA 7 ABOVE.

9. RE PARA 9 REFTEL, WITH INFORMATION NOW AVAILABLE WE WOULD RECOMMEND AGAINST A LARGE TITLE II FEEDING PROGRAM. BEFORE CONSIDERING SUCH A PROGRAM, WE WOULD NEED MORE EVIDENCE THAN WE HAVE NOW OF THE MAGNITUDE AND NATURE OF EXISTING NEEDS. A MAJOR PROBLEM WOULD BE THE DEVELOPMENT OF A VIABLE DISTRIBUTION SYSTEM, INCLUDING CONTROLS. FOR THE TIME BEING, WE FAVOR CONTINUING OUR ASSISTANCE AS NEEDED THROUGH THE ICRC IN A STRICTLY HUMANITARIAN FRAMEWORK.

10. LOOKING AHEAD, WHETHER WE CAN BE "CONFIDENT" MOBUTU WILL INDEED MOVE TO UNDERTAKE THE KIND OF REFORMS WE ENVISAGE (PARA 6 REFTEL) IS OF COURSE DIFFICULT TO ANSWER. AT A MINIMUM, WE BELIEVE

MOBUTU SHOULD BE GIVEN SOME TIME TO TRY, AND THE THREE-MONTH PERIOD BETWEEN NOW AND THE NEXT MEETING OF DONORS STRIKES US AS A REASONABLE TIMEFRAME IN WHICH TO OPERATE AND ONE WHICH HE HIMSELF HAS PROPOSED. RE THE SHORT-TERM FINANCIAL REFORMS, IN OUR JUNE 298 MEETING CENTRAL BANK GOVERNOR BOFOSSA CONFIRMED HIS INTENTION TO PUSH AHEAD WITH WHAT

WE WANT (SEPTTEL). AS FOR LONG-TERM REFORMS, MOBUTU'S JUNE 24 SPEECH AT KINKOLE CONTAINS MORE POSITIVE AND ENCOURAGING ELEMENTS THAN FOUND IN HIS SPEECH OF JUNE 21. AT KINKOLE MOBUTU IN FACT MADE HIS FIRST MOVES INTO TWO OF THE POLITICAL AREAS WHICH IN OUR DEMARCHE WE IDENTIFIED AS REQUIRING URGENT ACTION. ALTHOUGH CON-
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TINUING TO DENY THE EXISTENCE OF A POLITICAL OR LUNDA PROBLEM PER SE, HE IN EFFECT ACKNOWLEDGED BOTH BY ANNOUNCING AN AMNESTY WHICH WOULD APPLY TO ALL KATANGAN REFUGEES NOW IN ANGOLA AND PROPOSING THAT THE OAU AND UNHCR ASSIST IN ASSURING THEIR SAFE RESETTLEMENT. IN ADDITION, HE RECOGNIZED THE NEED FOR BETTER DISCIPLINE AND CONTROL OF FAZ AND THE GENDARMERIE AND PROMISED TO CRACK DOWN ON THOSE GUILTY OF ABUSING THE CIVILIAN POPULATION. MOBUTU COULD, OF COURSE, HAVE GONE FARTHER IN BOTH THESE AREAS AND ADDRESSED OTHER PROBLEMS AS WELL. ALSO, THERE IS ALWAYS THE RISK THAT, HAVING SPOKEN TO SOME OF THE MATTERS OF CONCERN TO US, HE MAY FAIL TO FOLLOW THROUGH WITH EFFECTIVE ACTION ON THE OTHER HAND, WE SHOULD NOT LOSE SIGHT OF MOBUTU'S EXTREME SENSITIVITY TO APPEARING TO ACT IN RESPONSE TO OUTSIDE PRESSURES, AND THE NEED FOR HIM TO MOVE WITH CARE INTO SOME AREAS OF SUCH EVIDENT DOMESTIC POLITICAL
SENSITIVITY.

11. TO SUM UP, WE SHOULD CONTINUE TO ACTIVELY ENCOURAGE FURTHER STEPS TOWARD REFORM IN THE WEEKS AHEAD. OUR ENCOURAGEMENT SHOULD ESSENTIALLY BE IN THE FORM OF MEASURING OUR REMAINING FY-78 ASSISTANCE

AGAINST GOZ IMPLEMENTATION OF THE MEASURES CALLED FOR IN POINT SEVEN OF THE BRUSSELS CONCLUSIONS AND THE EVIDENCE OF FOREIGN EXCHANGE DISCIPLINE WE HAVE ASKED FOR UNILATERALLY. AT THE SAME TIME, WE SHOULD CONTINUE EXERTING PRESSURE FOR LONGER-TERM AND WIDER-RANGING REFORMS BY MAKING CLEAR THAT ACTUAL PROVISION OF NEW US ASSISTANCE PROGRAMMED FOR FY-79 WILL DEPEND ON THE EXTENT TO WHICH MOBUTU EVIDENCES OVER THE NEXT THREE MONTHS A SERIOUS INTENTION TO PURSUE THOSE REFORMS. ASSUMING THAT BY OCT SUCH EVIDENCE EXISTS, WE COULD THEN ESTABLISH REFORM BENCHMARKS BY WHICH TO PACE THE IMPLEMENTATION OF OUR FY-79 PROGRAMS.

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